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Russia's New Horizons
BUILDING CAPABILITIES TO COMPETE IN GLOBAL MARKETS
Panel

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14:00–15:15, Pavilion 4, Conference Hall 4.3

St. Petersburg, Russia
2013

Moderator:

Basil Moftah, Managing Director Emerging Markets, Thomson Reuters

Panellists:

Serguei Belousov, Senior Founding Partner, Runa Capital; Founder, Parallels, Acronis, Acumatica, Rolsen

Orit Gadiesh, Chairman, Bain & Company

Nikolai Lebedev, President, Transas Group LLC

Sander van't Noordende, Group Chief Executive Officer of Management Consulting, Accenture Plc

Pavel Teplukhin, Chief Executive Officer for Russia, Deutsche Bank

Pekka Viljakainen, Chairman, All Capital

Siegfried Wolf, Chairman, Russian Machines

Front row participant:

Konstantin Ryzhkov, Director, Russian Direct Investment Fund (RDIF)

B. Moftah:

Good afternoon, everybody. I want to make sure we get started on time; if for nothing else because we have a splendid panel with us today that is full of quite a number of very high-profile individuals, and I want to give them a chance to speak. The style of the session I will be running today is very much a question and answer session, we will not do any formal introductions or speeches, and we will not do any sort of prepped presentations, if you like, but rather I want to jump right into the topic. I think this is a very important topic, given where the Russian economy is today and looking at where there are opportunities for Russian companies to invest abroad or for Russian corporations to look further outside their own borders. And so in the sense of the topic being Building Capabilities to Compete in Global Markets, I would like to explore with the panellists today, and later on, with the audience – I will open up for the question and answer – the topic around how Russian companies can build those capabilities and how they can compete in global markets. With that, I would like to properly pose the first question to Mr. Pavel Teplukhin. How do you see the composition of FDI today? Where have there been increases? Why are Russian companies looking abroad, and do you think that is a healthy direction?

P. Teplukhin:

Thank you, Chair. I would like to start with just a slightly different question, maybe pose a question to the audience. Have you noticed Russian foreign direct investments abroad? And the answer would probably be no, because nobody is actually talking about that that much. At the same time, I just wanted to give you a few statistics. If we take Russian foreign direct investments abroad in size, they are probably equivalent to foreign investments in Russia, in size. And that is excluding portfolio investments, flat capital, et cetera, and all other noise that is normally associated with these types of statistics. Everybody is talking about foreign investment into Russian markets, and we have an entire ministry working on that and forums every year, et cetera, et cetera. A lot of people are dedicating their lives and efforts specifically to achieve exactly that, while nobody is obviously talking

about the opposite trend. If you want to talk about size, then I shall give you a number. In 2000, investments from Russia – direct investments – were about USD 20 billion. In 2011, that figure was USD 360 billion: the stock of the investments, not the flow. In this respect, we are the biggest emerging market country that exports capital; again, excluding flat capital factors, et cetera. If you want talk about the industries and the composition of those flows, there is no surprise there. Between 2000 and 2008, three quarters of that flow was oil and gas, and that was a reflection of the nature of Russian business and the Russian economy and the might of Russian corporations in this area. But in 2009, 2010, and 2011, the situation changed dramatically, and about 18% of Russian investments abroad were in telecoms; another 18% were in financials – banking, mainly – and oil and gas were down to 40% of the total. So we have a completely different composition. We also have a machine-building industry growing pretty rapidly. So looking forward, I would expect further diversification in terms of Russian outward investments into other segments or sectors, including machinery and high-value-added industries.

B. Moftah:

Thank you very much, Pavel, I appreciate it. Following onto that, we are talking about diversification or the new areas where the Russian companies are investing abroad. Do you see that there are real strengths of Russian companies that they can take abroad? Are there real areas in which they can take them abroad or not?

P. Teplukhin:

I would believe that the driving force behind that is very pragmatic. At the beginning of this period, in about 2000, the investment opportunities in Russia were very appealing; PE ratios were very low, and it would be smart just to reinvest your capital in your own business. But with the rouble appreciation, with economic development, with the market development, and with the general economic crisis globally, the investment opportunities outside Russia are becoming equally appealing. And Russian corporations are making the very tough choice of whether

to invest in their own business or expand globally. For the first time ever now, I can inform you that we are seeing a very unique situation. For the first time ever, Russian corporations have money. Second, the Russian Government in general is not opposing that trend and, in many cases, it is actually supporting that trend. Third, which is very important, there are fewer barriers to Russian capital from foreign governments. Barriers existed and still exist, and there are plenty of them, and, unfortunately, Russian corporations have to fight this battle every single time they want to invest abroad.

B. Moftah:

Thank you very much, Pavel; I appreciate it. So, Orit, if I follow on to that, are those strengths, beyond money, really there for Russian companies to take abroad?

O. Gadiesh:

Well, it is not about beyond money; it is beyond where the money is going and what it is invested in. We talked about foreign direct investment going outside of Russia; that is a double-edged sword. The question is: what can you invest inside of Russia? And one of the things that I think would have been very good for Russia, if it really wants to become a major global economy as opposed to just a large economy, is to move away from investing mostly in resources, oil and gas, mining and metals, toward value-added manufacturing. There is no country in the world in the last – well, ever, probably – that has truly prospered and become a global economy without value-added manufacturing. Value-added manufacturing is what creates jobs; it is what creates innovation; it is absolutely essential. There is very little of that; there is less in Russia of that both in terms of GDP, definitely in terms of exports, than any of the other BRIC countries. So if I had to summarise, what I think is necessary is actually more of a focus on that. There are two things that I will say to that: one is when Russia Inc., as a country decides to do that, it has done that. It has done that in armaments, because it has been important to Russia's image and important to Russia's history. So actually in that, Russia today is the second largest

exporter after the United States, and it has found a niche, a certain kind of equipment to certain geographies, and invested in a lot of research and development, and the government organised itself so that it actually can export things that are both high in quality and relatively low in price. In the second place, where you see it is in nuclear energy, where again, out of necessity, for 50 years, Russia has really spent quite a bit of money on not only doing more of it but also doing it more safely. Today it is the third largest builder of nuclear energy facilities in Russia, and probably on the forefront of technology to export. The place to really do it is to go back to oil and gas – which is 40% of GDP; it is two thirds of the export – and start thinking more about value-added manufacturing around oil and gas, of which there is plenty. Right now, Russia exports most of it or uses foreign companies to come here in joint ventures. But if you look at what Norway did, for example: it is a small country, and oil and gas is really the major export. It has invested, actually, either through requiring local content, requiring research and development in Norway, and so on and so forth, in the entire infrastructure of equipment around it. As a result today, Norway's export of those services, including to Russia, is growing at four times the level of export of simply oil and gas. Brazil is beginning to do similar things. This is a huge asset for Russia that it has the oil and gas that it has; it can be a huge asset to actually have the value-added manufacturing around it and to become one of the largest in the world. There is no reason why it cannot be among the largest and the best, given the fact that it is literally the largest extractor of oil and gas. So that would be definitely one place where I would rather see the money go into than go outside.

B. Moftah:

Great, thank you very much. Siegfried, if I can come to you for a second while we are on the topic of manufacturing, and knowing that you are building – the second time round now – one of the largest manufacturers of Russian machines and so on. Can you talk a little bit about whether you see your opportunity within Russia or

whether you think that you can compete outside of Russia, and if so, in which geographies?

S. Wolf:

Thanks a lot. I did it completely the other way around. We were a product, or my staying in Russia was a product of a Russian investment outside of Russia. Mr. Deripaska decided to invest heavily outside of Russia to do what is absolutely needed. "We need technology", he was saying. "We need best business practices." He invested in a company which I was co-CEO of, Magna International, close to a USD 30 billion company on a global base. He invested as well in a construction company, one of the top three in Europe, called Strabag, a full supplier in everything in terms of construction. After the crisis, he had some difficulties supporting his investments. In 2010 he asked me if I would come to Russia to do what he had started a couple of years ago. I decided to go, became a partner, and now have two businesses in Russia in the field of what could be called infrastructure. One is machine building – we do everything from plane production to car production – and the other one is a construction business, from bridges to houses, et cetera. We went in a very strong restructuring process, especially into GAZ. GAZ is the second largest automobile manufacturer. With discipline and under the strong leadership of my management team, we are now internationally accepted as a partner in all variants of business. We now do cars for Volkswagen, for General Motors, and Mercedes Benz. We are even able to produce engines, which was considered a miracle before, and we do it in a very competitive way. What we learned from this restructuring process is that if you are competitive in your own market, then you can think about exporting. The home market, Russia, is difficult by itself, because in Russia I do not see a strong brand image. It is easier to buy a brand from outside, believing that they have a better product: it is not true. We saw it in one product called GAZelle, which has a 60% market share of the Russian LCV market. When we were coming in, we saw the Russian team trying to compete with international products, and their product ended up being more expensive than an import. We

completely turned it back and started with the questions: what are the values of Russian people, of Russian engineers, and Russian production? We made a new product, which is about 20% to 30% cheaper than our competitors', Volkswagen or Mercedes Benz. Now Russians are trying to see it as an attractive product. But what we learned from this was that we had to completely change the mind-set of our people. First of all, our people had to be proud of what they were doing. Second, we tried to integrate our complete team with international competitive standards. All our people have a share in the profits; it is completely new to have this in Russia, but we have been able to pay out a bonus to our employees for the third year in a row. At the beginning people thought they should wait a little bit, but now people are knocking on the door; they know exactly how much money they should get. We are still talking about international standards and rules. But how can you do it better if you do not integrate the people and are not transparent? You need international standards and rules. Now we have a product in Russia which is competitive, and we are thinking to go into external markets. We were very successful with our first product after Russia's WTO accession, and we are now exporting those products, but based on international technology, as we do with Terex in the construction business, or as we do with our GAZelle: we have founded the first outlet in Turkey, where we bring it in, assemble it, and sell it on the Turkish market. It is absolutely not seen as a basis, but we are there and we are doing it. Discipline, discipline, discipline. Trust, trust, trust. That is what you need to measure, otherwise it will not work; you will fail.

B. Mofteh:

That is great; thank you. So you were obviously competitive in the local market first before you went abroad. Nikolai, I know your business was very competitive on the local market, and you benefitted from the opening up of the Russian market to look abroad. Thinking about how you did that, how did you expand with your businesses or start to look abroad? What were the key elements that were really important for you?

N. Lebedev:

We started in the beginning of the 1990s, in a situation where the Soviet market for the technology we had started producing – the machine industry – had collapsed and we faced the challenge of starting our business internationally two years after we had established it. I believe that our good luck was that we started not with the smaller markets – what we now call the emerging markets – but immediately with advanced markets like the UK, Germany, France, Sweden, the United States, and Singapore. That is where our first few companies were established during those 10 years. That gave us a chance to prove, probably to ourselves first, that we are really competitive, and there really is international potential for our business. And then, of course, we distribute our products in over more than 130 countries. But when the Russian market was reconstructed, we came back to Russia, because in our first 10 years, 85% of our turnover was on the international markets. Now we have a more normal ratio, where the Russian market is 60% and the international is 40%. I believe the first things any company probably has to do – and it does not matter where this company might be, in well-established or emerging countries – is to prove their own competitiveness, and they have face real competition. If you penetrate this thing, then you can see how your business could be. I believe the major things we built our success on were the ability in Russia to use the appropriate advances, in some respect: the intellectual resources which we can find in this town, in St. Petersburg, using the best mathematicians from the main universities and institutes in St. Petersburg, and creating products which have more advanced intellectual properties than our competitors' products. But another thing is that we did not start with consumer things. We started in special niches, which are probably not so competitive with respect to start-ups. In this, we had a chance to penetrate the initial stages without facing big competition and big products from other players in this respect. All in all, it gave us, after 10 years, a good position on the international market; we are established in a few niches where we were number

one, two, or three in the world, and now when we use this ability in both areas – on the Russian market and internationally – it gives us a good synergy effect.

B. Mofteh:

Thank you for that. Obviously, picking your spots is really important in terms of how you move internationally. Sander, I want to come to you on this question around brand and around image. For many Russian companies that have gone abroad, part of their way of going abroad is to acquire businesses in those markets. But we have seen many cases where Russian companies have had difficulty or were rebuffed on the grounds of whatever the media was talking about that week. In your mind, what can Russian companies do to overcome that brand and be able to be a real partner in foreign markets?

S. van't Noordende:

I would say first of all they have to realise that the competition is fierce out there. Whenever I go to Asia, Asian companies talk about going global; whenever I go to Latin America, Latin American companies talk about going global; and then obviously there are the United States and Europe. There are three times as many multinational companies as 20 years ago. So first of all, it is really competitive, and you have to realise that. And then when it comes to branding, branding is actually, I would say, on the one hand, relatively simple, because you have to make a promise, and then you have to live up to it. That means that when you go global, or when you go international, first of all you have to be very clear to yourself, asking "Why am I doing this? Am I going global to follow my clients? Am I going global to diversify my business? Am I going global to grow in emerging markets?" So why are you doing it? Then think for yourself about what are you really good at and how you can differentiate. I think there were some good stories on that side. What am I good at, and how can I differentiate *vis-à-vis* the competition and live up to the promise that I make through my brand? Investing in the brand itself is really important. All the actions that you take, what your people say to the customers, the things you do in

the markets, how you manufacture all have to be consistent with the promise you make to your customers. So the consistency of what you promise and what you deliver – that is really key as long as it is differentiated.

B. Moftah:

Pekka, I would like to come to you about technology companies in particular. I think Russia is well known for having lots of great scientists, mathematicians, and technologists; there is a capability there. Do you think it can go global? Does it have the brand and the image to go global? Is it a realistic thing to hope for, or is it not?

P. Viljakainen:

I started my own company some 28 years ago when I was very well-educated, 13 years old, a teenager close to the Russian border, on the Finnish side, but pretty close. I am a typical nerd, a technician. It is interesting being in Russia and advising for Mr. Vekselberg and the government in this innovation area. I think that going international, making investments in a hi-tech space, is absolutely a must for this system to generate value; so first, that is a must. And why is that? It is precisely what Mr. Wolf was saying: having these learning sessions, best practices to be exported. We organised a Russian start-up tour in April; I personally went to 16 cities in Russia – not St. Petersburg, not Moscow – 24,000 kilometres in a plane in 16 days. I met 7,000 start-up entrepreneurs, everywhere between Kaliningrad and Vladivostok. When we talked about going international, there were many people who asked why. Why should we go international, because Russia is such a big market anyway? I want to be the most beautiful boy or girl in Astrakhan, and when that is done, I want to be that in the whole of Russia, and that is enough for me. I think that what we are missing here is this learning curve. I was running a business – I am now retired – but I was running a business of 20,000 people in 26 countries and going international, for me, was to understand from the leadership, from the management standpoint, the differences of the markets and how to develop my people. And I have said to every single hi-tech company in Russia that even if you

would make billions or trillions or zillions here, it is still not good enough. Because to be competitive, you have to develop yourself as a leader, your leadership team, your offering, your value proposition, and that will make you even better here also in Russia. Somehow this capability – because the topic today is capability – the capability issue is a little bit overshadowed, so to speak. And of course what was said about the structure is correct: the modern history of Russia is based on oil and gas and that kind of thing. I believe that the near future of Russia, where the growth comes, is in hi-tech businesses; not projects like Skolkovo or RVC and so forth; it is a much broader issue. What you need to succeed there is not dependent on how much oil money is pumped into these parts or how many investments are made; the key is how quickly Russia can develop thousands and tens of thousands of leaders, young talent, to be able to operate in an international arena. If that happens, then Russia can buy whatever, wherever, because you cannot just buy with money: you have to send your leadership team there; you have to build a bridge; you have to make cultural relationships. With money alone but no people, you will fail in knowledge-driven businesses. This is high on the agenda – what are we doing to develop the leadership culture and people? If that happens, only the sky is the limit.

B. Moftah:

Remaining with the theme of technology for a second, Serguei, as an entrepreneur and investor in technology companies, do you see that as a criterion today in the decisions you make: that these companies should be globally minded, able to go abroad, or not?

S. Belousov:

Actually I do not quite agree with Pekka that there are not really global companies coming out of Russia. In the portfolios held by me, my partner, and my investment firm, we have a number of companies which are market leaders today globally. I do not think they ever even asked the question of whether to go global or not. In technology, they put the software on the internet and it started to be used all over

the world. The internet, for now, does not have any borders, and so anybody can download your software, and as long as its manual and user interface is in English, it can be used. There are companies like NGX, which is produced in Moscow used by Facebook and LinkedIn, which is very famous in Silicon Valley. In fact it is a Moscow-based company which was referred to our mostly Moscow-based fund by a Silicon Valley fund. They told us, "There is this famous software; the founder of it sounds Russian." There is a company out of Ulyanovsk in our portfolio – one of the cities which is a market leader in e-commerce for small businesses. If you go to the website, you might not even figure out that it is actually based in Ulyanovsk, but it only had several employees globally at the time when we invested in that company a few years ago. There are other companies out of Russia such as Kaspersky, such as companies I have been involved in – Acronis, Parallels – which are highly global, compete very well on the global markets. To some extent they are leaders in their specific fields globally, and they have technologies centres in Russia. I think the reality is that in the technology world there are no borders, or almost no borders, and one of the reasons you need to be global is to keep your technology competitive. And if you make your technology competitive, in most cases, it becomes competitive globally. Russia is certainly a much larger market than Finland, but it is not a very large market. Only 2% of the global population lives in Russia, and it is only 3% of the global economy. Technology comes in waves. Every time new waves arrive, they arrive on a market which is first very small, and then the market expands. Especially when the market is very small, especially when it is, say, a billion globally, or a hundred million globally, if you focus on any specific geography, you just cannot survive. Imagine that the global market for your technology this year is at a hundred million; the next year it is 200; the year after it is 400, and so on and so forth. So if you focus just on Russia, it is just not enough; you have to go global. And so a lot of technology companies out of Russia are global even today, and again, they are from all parts of Russia. For example, one of the most popular applications for compressing files, WinRAR, is built by one guy in Chelyabinsk, and there are guys with global technologies from Novosibirsk.

Definitely there is a lot of potential in that area. Our firm does try to invest mostly in companies which can be competitive globally for a very, very simple reason: because technology knows no borders, unless you can compete globally, you will likely lose your position in Russia. Even companies like Yandex, mail.ru, or 1C or a couple of other companies which are focussed on the Russian market are attempting to go global to stay competitive.

B. Moftah:

Thank you. I would like to go back to Orit just for a second. You talked about value-added manufacturing; we seem to be talking about the theme of technology. I guess the question really is: as the Russian economy has a stock of oil, et cetera, why would they need this diversification that you are talking about, and how does technology play a part in that?

O. Gadiesh:

In today's world, technology plays a part in everything. If you want to be relevant in the world, you had better get on with technology, whether you invent it or whether you follow it. Oil and gas are wonderful when you have them, but they are gradually depleting, and they are a one-trick pony, basically. The reality is that if you look at oil and gas and what they have done in Russia, they will probably continue to do so for a while, but they are not something that you can bank on for the next, I would say, 20 years or even less. If you do not develop or diversify out of that, you have a population that does not develop skills. People talk about education. Russia used to be one of the most amazing countries in terms of engineering and mathematicians. That is not the case anymore. The emphasis has not been there, and, in fact, in terms of that kind of education, it has gone down. There is no discussion about getting it back to where it was again. But if you do not educate people to do different kinds of things, to focus on technology, to focus on the kinds of things that other industries use, then you are literally going to be left behind. You can go back to the Middle East, where all it did was oil and gas, and you can see what the future would

look like. And you can see why, in the Middle East, they have started really, pretty aggressively, moving away from just doing that. It does nothing for the population; it does nothing for innovation; and it frankly does nothing for your place in the world except for the amount of money that you can get.

B. Moftah:

So, Pavel, you painted a picture regarding Russian companies and a rise in FDI and the fact that it is rising. Do you think it will continue to rise, especially with some of these issues we are talking about in terms of education, in terms of the availability of technology, the availability of people to actually take Russian companies abroad?

P. Teplukhin:

I think so. The trend is clear to me, and Russia is becoming a global player. It is very difficult, and, as I mentioned earlier, most Russian companies face very significant barriers. If you have read the papers recently, basically last week, Russia's Gazprom was not welcomed to Greece, although Greece actually needed money, and Gazprom suggested the best terms, but still the transaction did not happen, for many reasons. When we talk about large investments, all these investments are tied to politics, and European countries, many of them, are still scared of dominance or other influence by Russian companies. This is a true fact. But with regard to technology, I agree with the previous speakers, because there are no borders here; there are no politics here – well, not really – and the process is going on. In addition to the cases that were just mentioned, I must tell you that I do not have any particular statistics, because I am not sure the statistics exist, but probably half the global trading platforms – currency trading, commodities trading, securities trading, settlements, et cetera – are developed by Russian programmers. This is a true fact. This is financial technology at its peak; this is the most advanced financial technology globally, and this is very, very globally competitive. There are no borders on that, and certainly, most likely, there will not be any in the future. So when we talk about that aspect, I think the trend is pretty straightforward. With the

big investments, capital-intensive investments, we unfortunately see very significant barriers.

B. Moftah:

So if we look at some of these challenges, Sander, thinking about some of the new agreements or Russia being accepted to the WTO recently, do those help or do those hinder, as Russia finds a more level playing field? Do they open doors to help with these challenges or not?

S. van't Noordende:

I would say those help, but I was just on another panel, and there was one gentleman saying you can only join the WTO once, so that is going to be a one-time effect. The effect is that where there is more openness, there is more competition, there is more innovation. I think the technology world is the perfect example, because there are no borders, and Russia coming into the WTO opens borders for other sectors as well. So I would say, by and large, it is very good news for Russia as well as for the world.

B. Moftah:

Pekka?

P. Viljakainen:

Yes, I just want to comment on this issue. I do not know this Gazprom case, but once in a while there are all kinds of discussions about whether there should be special laws to stop investments, for example. Even in a small Mickey Mouse country like Finland, and so forth. It is kind of interesting, because at the same time, everybody is talking about the freedom of people and freedom of money and so forth. If at the same meeting, people are talking about what kind of barriers to build, this whole discussion is a little bit upside down. I'll talk about the WTO and development from a personal standpoint. People ask me why I leave Helsinki and

my cosy home and family every Sunday to go to Moscow for four days a week. Why? There is absolutely no need financially or anything like that. I say it is because I still have 32 years before my official retirement, and that there is a very high probability that my boss will be from Russia, Chinese, or elsewhere in that region. There is lot of capital, and there is absolutely nothing that anybody in the European Union can do about it. In infrastructure, yes, I fully agree; in energy perhaps, yes, but if we talk about knowledge-intensive businesses, my grandfather, who was the founder of Nokia, said to me, "If you have money, you can get whatever you like. Nobody will stop you; it is only a matter of price." And he was not Al Capone! So my point is that it is a fact. I was a speaker in a Finnish government meeting about Russia, and all the questions were fear-related. Nothing was opportunity- or growth-driven. This is a big mentality issue: we have to have people who can tolerate these differences. We can build a common base for leadership management, and I honestly believe, after seeing the young talents of Russia, that they are coming. There is the same in Finland, the same in Sweden, the same everywhere, but we have to work on that. Otherwise this whole region will be a big retirement home.

S. van't Noordende:

If I may add to that, I would say in Russia, as well as in China, India, and Latin America, I see people who are much more motivated and energised and energetic than in the United States, on average, and in Europe, on average. That is because they feel, they sense, "Now it is us; now it is our time to go out and win." You see less and less of that spirit in Europe and the United States.

O. Gadiesh:

I think there are a couple of things. First, you see it very much on the west coast of the United States and the east coast of the United States. I would not write the United States completely off, although I agree with that. I think there is something very fundamental, which is that you can open up the WTO, you can have people who are technology-minded. I come from a country, Israel, where there is nothing

but technology, and it is the smallest country in the world, smaller than Finland, so I take that for a given. The question is: what is behind it? In any competitive study that you can see, whether it is the World Economic Forum, the IMD, or whatever, the reality is that Russia still falls behind on business legislation, on the ability to price as you want, and on technological infrastructure. These are things that the government can do, if the government puts its mind to it. So it is not like it is all over. It is not a fear thing; it is where you decide to put your investments. The investment that was put in armaments has paid off brilliantly. Investment that was put into nationalised back oil and gas, it is what it is and now the government is getting money from that. It is always private money and government policies that go hand in hand; one cannot do anything without the other. But if those things are not actually brought up to date by the government – and the entrance to the WTO is a great opportunity to do that – then Russia will fall behind, and it will not be Europe that it will be competing with or not: it will be India, which also has its problems; it will be China, which is doing a lot; it will be the rest of the BRIC countries. By the way, in all those competitiveness studies, it is a shame that Russia falls behind all of them. So, yes, I agree with you: it is a great opportunity. The question is: who is going to go there first? Because there are many places where you see very aggressive people, very technology-minded people, very interested people, and with people who are able to get more money in direct investment, precisely because they are showing the same things, but the infrastructure may be better, and none of them are perfect.

B. Moftah:

Siegfried?

S. Wolf:

I just would like to come back to the idea that to participate in this global market you have to have products. We discussed that Russia has an excellent springboard because we have our own market. Russia itself has another big advantage, and it is our people. Through the internet, which is borderless, as we hear, everyone

participates in global work, and everyone would like to think what he can do better for himself and his family. These are the same dreams people have everywhere. If you help them to develop some systems where they feel part of it, I tell you honestly, Russian people can do a lot. The automotive sector is one of the most competitive businesses in the world, and we can see where we can build. Quality is a global given; you have no chance if you are not competitive in quality, price, and technology. We see in our products that Russia's young generation can do it, but you pointed out that it is very important to create jobs, because you do not get jobs from selling gas and oil. You have to do something in the medium-sized towns in Russia. I am here as well five or six days a week. You see this young generation – they are willing. What I see is that we have to help them with technology; we have to help them with international practices; but we have to help them as well with another point: call it finance. In Russia we have not been competitive in finance for a long time, because we are talking, in Russian terms of finance, 10% plus. In Europe we are talking about 3% minus. That means, if you have this unequal playing field, then this is, in my mind, one of the most important things to do. The next point is about the consumer market. If you let Russia's young generation participate in a consumer market and help them with financing it, there are enormous possibilities for what we can do in Russia, and Russia is, in principle, about the size of the EU. My former business was international: we had 360 company plants on a global base. I personally built up 19 plants in China, and I can tell you when we started to build up plants in Russia, every one of those plants made money and we did it mainly for Russia. Even though I am here with a lot of my former colleagues, we are trying to work for the Russian people, and as I said: trust and reliability are very important factors, and that is something where I think there is no reason that Russia cannot or should not be successful on a global basis, even as a second step with international products that are used for the global market. As you both said, branding is something which the Russian people have to learn about, because if you go to a supermarket and would like to buy cheese or some meat, do you know what they do? They help you to buy a French cheese or even a German piece of meat. This is

something we have to give the Russian population the chance to participate in, be proud of, and attain a share of the success that you might have in this country, and then it is easy. I know what I am talk about. I know what difficulties we had. We had to lay off thousands and thousands of people but we were also able to create thousands and thousands of new, competitive jobs. And if you see our young talents, and if you see the fire in their eyes, they are willing to do it, they are willing to compete, and they understand very clearly what it means to compete.

B. Moftah:

Serguei?

S. Belousov:

Yes, I think one thing about Russia – the difference between the culture in Russia and in other places – is that there is a lot of negative thinking in the culture. I guess it is contagious, so although many of my colleagues on the scene are not Russian, they only talk about problems. I am actually not a citizen of Russia; I am a citizen of Singapore, and at one point I participated in a session with Lee Kuan Yew, who was the founder of modern Singapore, and there was one guy who stood up from the audience and said, "I am from Moldova. I want to ask Mr. Lee Kuan Yew how I can make my people happy in Moldova. I want the people of Moldova to be as happy as people are in Singapore." Lee Kuan Yew is quite old, but at that point he got agitated and became quite angry. He said many different things, but one thing he said was that being happy means making not so much progress. Perhaps solving problems in Russia with legislation will make it less likely that Russian companies will go and become global. In fact, for technology industries, trading in the Russian economy in a perfect state is not quite as good as it might look, because the Russian economy drives the prices up of the main resources for technology companies. So problems push people to move forward, and many of the countries which are successful on the global arena did not have natural resources, did not have good situations with their population, did not even have a good political

situation and, in the end, they became very successful, very competitive, and produced world-class companies. So perhaps maybe a little bit more positivity is needed; problems are actually opportunities.

B. Moftah:

Staying with the theme of government, I am going to go to Nikolai just for a second to ask a question. Do you see the Russian Government helping or not with what it is doing? Even if the problems create opportunities, as Serguei was trying to say?

N. Lebedev:

I would like to say that, as far as I am concerned, the government helps too much because the government tries to run the show. That is a problem which probably the government has to change, but generally, of course, the government tries to create environments for business and for companies like us, by decreasing taxes for the software people et cetera. They tried to create some benefits for making domestic investments, and reduced the profit tax as well. They are taking some steps, in one respect, but in other respects when they try to run the show and invest money and technology, I believe they are not do it in as sophisticated a way as real investors would. My view is that their efforts to run industries, to invest in industries, are not correct, because industries have to create the ability to work with the government. It is like a chicken-and-egg scenario, and it is very important to understand where the chicken is and where the egg is. I believe, as far as I am concerned, the government has to focus more on infrastructure and help to create policies for a real opportunities, for example focussing on areas where Russian companies could be established to cover our own interests and then to be competitive internationally. If they were more focussed on these things instead of running the show in terms of economics, I believe the effects would be better.

B. Moftah:

Serguei has a rebuttal for you.

S. Belousov:

I think the Russian Government, especially in the past five years, is genuinely trying to provide much more help, especially for technology companies. However, there is one major point which continues to be missed. In fact, for any modern economy to be globally competitive, the country must have good people and must have proper investment in science, especially a country like Russia. Unfortunately in Russia investment in science has significantly deteriorated over the past 20 years, since the collapse of the Soviet Union, and even today, if you talk to government officials, if you talk to people who are in charge of various government initiatives on developing technological systems, they are thinking mostly about commercialisation or about education, not about science. In reality, there is no competitive technological system without proper investment in science, and there is no proper education system without proper investment in science. In fact, almost nothing in the modern economy can be built without investment in science; even if you want to drill a new shaft for oil, you need to have scientists who will plan it. So that is one thing which the government is not doing enough of, for sure: investing in science.

B. Moftah:

Thank you. I want to go to the audience for some questions in a few minutes, but I will ask two final questions, and hopefully the audience will help me out for the rest of the session. Sander, I would just like to ask you about developing people. We are talking about education, science, and so on: in developing people, how should Russian companies build their people's capabilities to compete globally, to be able to participate in FDI, to be able to go abroad?

S. van't Noordende:

I would say it is all about leadership. If you go with your business to other countries, you run into certain things. You have to understand local customers; you have to understand the workforce; you have to learn how to collaborate with each other. So

if you want to be a truly global company, you have to think about what the big table – in Accenture we call it the big table – what the big table looks like. Who is sitting there? Is it a bunch of white guys with red ties, or is it a more diverse group of people, men and women, different backgrounds, different nationalities, different cultures in which your company operates? Because if the leadership gets it, if the leadership team knows how to collaborate internationally – and by “gets it”, I mean “understands it” – you have to be super global and super local at the same time; you have to leverage your global capabilities; but you have to understand and be agile in the local market as well. If the global leadership team gets that, it is no longer about command and control, but about leadership dialogue rather than, “I tell you what to do.” That is the most important thing; if the global leadership understands what technology can do, it is extremely important. So you have to have a team that is diverse, that understands it is no longer about command and control, and that can operate globally yet locally. That is the challenge at hand. So what can you do? First of all it is about looking around the table. Do you have the right people there, and have you appointed more diverse people to the group than it had before? Then there are many things that you can do in terms of making people aware of cultural differences, et cetera. I think there is a very important role for a CEO to play, because a CEO has to create an environment in which he enables people to operate differently culture by culture, country by country, yet keep the glue in terms of the shared value. I think those are just some elements that are important. The next thing is you need to think about whether you are developing the next generation of leaders in your company. That is just as important because when I was a young guy and joined Accenture, I looked up and saw a bunch of Americans sitting around our big table. I thought, "I am never going to be at that big table." But here I am, and I think that is what you want to show to the people in your company.

B. Mofteh:

Pekka?

P. Viljakainen:

I just want to comment on this, the role of the government, so to speak. This is a true story. A few weeks back, I think it was in the city of Rostov, we had a foreign journalist with us in the start-up tour, from the BBC. There was a team there. There was a press conference, and the BBC person asked me, "What are the biggest things the government should change about its behaviour so that you can produce the next Angry Birds or the next Microsoft or next Parallels or whatever?" I said, "As I work for the government, I would not have an objective view, but why not ask these young talents? Go to the young talents, take whoever." And this journalist team went and picked an extremely attractive looking girl, of course, an entrepreneur, and they asked the same question of that entrepreneur: what will or should the government do to make business better here in Russia? The girl replied in Russian precisely, "You do not understand, dear BBC. I am not running the government; I am running a business here." The point she was making was that actually in this hi-tech sphere, outside of Russia people think that everything is controlled, that you cannot do anything, that government involvement is needed. It is the same in Finland, people think about subsidising and all that kind of stuff. This girl went right to the point: her focus is only to make her very small, early-stage business the best in Rostov, the best in Russia, the best in Europe, the best in the world, and she does not need government in her business. I think it is a healthy attitude; of course there are infrastructure issues, of course there are science issues, but still the mentality is not to wait for help from somebody else.

S. van't Noordende:

So in the United States they would say it would be helpful if the government would get out of the way every now and then.

P. Viljakainen:

I am part of the government. I am just saying that I hear what you are saying.

B. Moftah:

Great, with the government out of the way and a lot of capabilities built and a good attitude, I guess we can take it forward. But I want to turn to the audience now and give them a chance to participate in this dialogue, if there are questions out there. Otherwise I can continue with questions; any questions in the audience? Okay, so with that I will continue with my questions. Siegfried, I guess you are going to help me out?

S. Wolf:

Yes, just to sum up once more. As I said, in the automotive industry, we trained a team of 40 people in Korea, Mexico, Germany, the Czech Republic, and Austria, and I will tell you what the biggest problem was. They are very well educated, but it is their own attitude about taking on responsibility and taking decisions. That is what I faced with our team. On the other hand, Russian culture has a tendency not to look for solutions, but to look for who is guilty. If we help the young generation to change this attitude, it will be absolutely helpful. What I expect from the Russian Government – and I have to say, they helped us a lot, if they could see it – but it is, in principle, competition. Competition is not always measured with the same worth. Governance is a very, very important factor even within Russian business. Training and education: there are a lot of places where the Russian Government could build up some subsidies, because if you train people, it costs you 10 to 20 days a year to train somebody to be competitive. In principle we are still at 60% in terms of productivity compared to OECD measurements. With regard to entrepreneurial spirit, if you give people a chance to be an entrepreneur, I think you said, Pekka, money is not enough. That means we have to let these people participate in changing their environment and being heard. And competitive financing: we cannot stop talking about competitive financing because it is so important for Russian people to be able to buy their flats, to buy their houses, and with 12 to 15% interest rates, you cannot do anything. And this is an inevitable key factor; please help us there.

B. Moftah:

Orit?

O. Gadiesh:

I think it is very fashionable to talk about government getting out of the way after it has been in the way and has helped make some things happen. So in the United States, legislation and certain things are working pretty well, actually; better than in most places. Let me just give you a couple of statistics where I think the government has to do something, or in fact entrepreneurs like this young lady are not going to be able to do some stuff. So out of 60 countries, Russia ranked 31st in technological infrastructure and below every other major BRIC country, and 57th in business legislation. That is a government thing; you cannot do it on your own, and that is pretty much hampering her ability to actually do things. Russia is 57th in the freedom to set efficient market-driven prices, and, much to my surprise, I think it is 27th or 28th now in scientific and engineering education, way below what it used to be. These are things that governments can and should do, and in every country, actually, when they intervene, they do help. China used to be one of the lowest in terms of education in science and mathematics, and, actually, in written comprehension. So 15 years ago, Shanghai decided they were going to be number one. And in fact today, they are number one. It was completely done by the government, and people have flocked to it because it has very good education. China overall has been doing it. India has been doing it in some places and falling behind in other places, and it shows in what is going on in India. So absolutely, especially coming from where I do – and I think most people here are the same – we are all for individual freedom, going and trying to do the best you can. But you need to have some skills; you cannot have the government hampering you. And it is not because they want to it; is because they are not providing some of the very necessary things to do. Brazil today is in the same place: no infrastructure. It has fantastic IP when it comes to agriculture and so on and so forth, but if you do not

have simple infrastructure – trains and ports and everything else – and the government will not let the private sector build it, then you are hampering what is going on. Russia has some way to go, and it has the capability. There is a lot of money that is coming from oil and gas; at one point it was put aside precisely in order to do that. Then came the bad years, and Russia has not been able to do, that but it is within its capability and I would say within its responsibility; that is what will make Russia the kind of country that Pekka talks about, or some other people have talked about, in terms of wanting to see it come to full potential, which it can.

B. Moftah:

Let me try to bring this session to an end by asking one final question of all the panellists. We are going to make it quick so that we can get done on time. Imagine it is the year 2033, so 20 years from today. Looking back, will you say that Russia's global competitiveness, or competitiveness globally, in international market share has grown or decreased, and if it has or has not, why? Is it a more competitive country globally? Are Russian companies going to be competing with a bigger share or a smaller share 20 years from today? I am going to start with Serguei on my left.

S. Belousov:

Just to continue on what you just said about the role of government. To rephrase it, if you take this optimistic lady from Rostov and put her in Papua New Guinea, despite the fact that she is very optimistic, she will not be able to even be number one in Rostov with the people she will find in Papua New Guinea. The only corporation which can educate and train people and invest in science properly is government. For many centuries, it has been the case that only governments can afford to finance science. It is very profitable. But only government can reap the profits. To answer your question, again, I am not a general expert in economics or finance. I am only an expert in technology, and I am very sure that in 20 years technology companies from Russia will have a larger share. There is potential for major technology companies out of Russia, both in information technology and in

other science-related technologies. You can see the trend of that happening over the past 10 years, and I think the trend will only continue.

B. Moftah:

Great. Pekka?

P. Viljakainen:

In this panel it is not very fashionable to be an optimist, as I have noticed over the past eight years. But based on what I have seen in the young talents, not only on the tour but in a start-up village four months ago with 4,400 people in it; based on how they are behaving, on what kind of view they have compared to what I saw five years ago, the answer is that Russia will definitely be higher in those rankings, whatever those rankings then mean in real life. That is how it will be if the current business elite put their money, their bets, on this talent, and provide their experience in leadership education – because having a young generation without any support from more experienced businesspeople is like a loose cannon on the decks, so they say. That is why it is extremely important to have not only financing, but also time to get it. If that happens, I think that Russia will be one of the most competitive economies in the world.

B. Moftah:

Thank you. Sander?

S. van't Noordende:

Pekka, I think you have set a trend here because one, two, three people have been optimistic so far, and I am also optimistic because of the talent that is here in the country, and because of the realisation that Russian companies can be and will be competitive on the global stage. And that will reflect positively on Russia and its economy as well.

B. Moftah:

Pavel?

P. Teplukhin:

Actually, the question is very tricky because obviously you should introduce a measure of competitiveness if you want to get the proper answer. Around this panel we have had a number of measurements already. We have had a number of tables and statistics, and this is obviously one of the measures of competitiveness. Another measure could be global integration into the global economy – whether it is our share of production, or knowledge of something, or penetration of something – that is another one. We can talk about educational competitiveness, including in terms of personal freedom. They are all different, and using different measures you would get different answers to your simple question. I can give you an example. Would you know the largest manufacturer of, say, refrigerators in the world? Do you know? Any guesses?

Panellist:

Haier?

P. Teplukhin:

Yes, Siemens or Bosch or something could be a good candidate.

O. Gadiesh:

Haier.

P. Teplukhin:

It is obviously Chinese, and you cannot even pronounce it. No, it is not Haier, but it is a very long name, and it is Chinese. We are not talking about competitiveness, but they are the biggest producer in the world. They do not even pretend to be global because they are very much local. So that is not, probably, the measure of

their competitiveness. I would say that Russia would still be number one in a number of areas. We would still be number one in nuclear energy; we would be number one in other stuff. We would not be number one in many other categories; certainly that is also true. In terms of global integration, yes, Russia could be fully integrated into the global economy, but it would still have a smaller market share in the global economy because in 20 years' time Russia will still be Russia, but we have other countries that are growing much more quickly than we are. In terms of percentage, we will probably be smaller. There is nothing wrong with that. So I am optimistic, because you cannot be number one in everything. You probably should find your own competitive advantage in the world and focus on that area and be number one in the areas that you focus on.

B. Moftah:

Thank you. Orit?

O. Gadiesh:

I agree; it is a matter of definition. Russia has got the people; it has got the resources; and it is really up to Russia. It definitely has some very important cores; it can use those cores just like China has used labour, and then it used the number of people who buy refrigerators to bring down the cost of the refrigerator and make more refrigerators than anybody else. Russia has certain huge advantages, and if Russia takes advantage of the advantages, Russia should be competitive, and should be much more competitive: it should be one of the major economies in the world, given the people and given the potential. I do not even know what is going to happen three years from now, so I am not even going to try to predict what will happen 15 years from now. I do not think there is a certain single pessimist on this panel; I think you have seen a bunch of cheerleaders basically saying we would like to see Russia become more competitive in the places where we can achieve it.

B. Moftah:

Thank you. Nikolai?

N. Lebedev:

I am very sure that the trend will be positive. But to achieve that in a more successful way, I think the problems which we see now have to be divided into two parts. One thing is that our rankings in the world economy and the methods which are used in international institutes to rank us have to be much more seriously addressed in Russia, and we have to create a special policy for this. I would like to compare it with cleaning house. In this respect, for many rankings, not in reality but because we are not serious when we are measuring ourselves, we receive what we receive. That is one thing. The other thing is that we need to make real improvements to the real problems which Russia has: the lack of marketing knowledge, and the lack of instruments in business matters which we have to learn better from international business environments. I would also like to say that I strongly believe, not in a Russian company in Russia, but in an international Russian company, because Russia has the ability, particularly in technological areas, not to be purely Russian. It has to be really internationally Russian, which provides both benefits to the international world with new sophisticated technology, and hard solutions which we probably are not, at the moment, very eager to address. In other respects, they will help Russia to run like a real, modern country. Thank you.

B. Moftah:

Thanks. Siegfried, last but not least.

S. Wolf:

I see the trend as positive as well, if the next privatisation in Russia goes in a direction where money is spent very clearly on healthcare and education. It cannot be that when the next privatisation take place Russia does not participate in the Russian environment on a bigger scale. Russia definitely has a natural advantage in

terms of resources – oil, gas, and natural resources – but it will only work if you go about it in a hybrid way. That means international partnerships. We have to attract them, and the next privatisation for Russia would be to attract best practices, the best companies, et cetera, to bring them and establish itself on a global basis with them. Yes, I think the direction is positive, and the biggest problem is that if people do not know what they do not know, that means we have to help them go a little bit further in this direction, and from there I see a very positive trend for Russia.

B. Moftah:

So we have a positive panel, but there is definitely a lot of hard work ahead of the country, ahead of the entrepreneurs, and ahead of the government, to make sure the challenges are removed. On behalf of the panel, I would like to thank the audience for listening to us, and on behalf of the Forum, I would like to thank the panellists for being with us and sharing their thoughts today. Thank you.